

CITY OF HUDSON

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

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City of Hudson

Officials

| | | |
|------------------|------------------------|-----------------|
| Bernie Jensen | Mayor | Dec 2011 |
| Robert Grittmann | Mayor Pro Tempore | Dec 2013 |
| David Spake | Mayor Pro tem | Dec 2011 |
| George Wessel | Council Member | Dec 2011 |
| Allen Schneider | Council Member | Dec 2011 |
| Dennis Sadler | Council Member | Dec 2013 |
| Sandie Deahl | City Coordinator/Clerk | January 1, 2011 |
| Richard Hansen | Attorney | January 1, 2011 |

City of Hudson

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hudson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2010 on our consideration of the City of Hudson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I through VIII and budgetary comparison information on pages 25 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

October 28, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

The City of Hudson provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- The City's revenues increased by \$135,136 from fiscal year 2009 to fiscal year 2010. Receipts in the City's governmental funds increased by \$81,763, receipts in the City's business funds increased by \$53,373.
- Disbursements decreased \$728,924 from fiscal year 2009. Decreased expenses in the governmental funds were decreased by \$236,675 and decreased expenses in the business funds were \$492,249. The decrease in governmental and business funds spending reflects a completion of projects and contractual agreement obligations to Hudson Municipal Electric Utility.
- The City's total cash basis net assets decreased \$78,961 from fiscal year 2009 to fiscal year 2010 to a total of \$2,971,339. The decrease in the cash basis reflects expenditures on capital projects with proceeds for partial capital project costs to be received in fiscal year 2011.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole, better off or worse off, as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric utility, water utility, sanitary sewer system and the solid waste disposal funds. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, including the Rural Fire Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Fund, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, and Sewer funds, considered to be major funds of the City, and the Electric, and Solid Waste Disposal considered to be non-major funds of the City. The City of Hudson no longer has an electric utility; however, in 2010 a balance remained within the fund. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Hudson utilizes no internal service funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$2.209 million to \$2.277 million. The analysis that follows focuses on the changes in cash balances for *governmental activities*.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

| Description | Year Ended June 30, 2010 | | | |
|---|--------------------------|------------|----------|------------|
| | 2009 | % of Total | 2010 | % of Total |
| Receipts and transfers: | | | | |
| Program Receipts: | | | | |
| Charges for Service | 65 | 4% | 61 | 4% |
| Miscellaneous | 20 | 1% | 25 | 1% |
| General Receipts: | | | | |
| Property Tax | 702 | 44% | 735 | 44% |
| Tax Increment Financing Revenues | 86 | 5% | 85 | 5% |
| Local Option Sales Tax | 256 | 16% | 261 | 16% |
| Licenses & Permits | 39 | 2% | 48 | 3% |
| Use of money and property | 109 | 7% | 117 | 7% |
| Intergovernmental | 310 | 20% | 339 | 20% |
| Total receipts and transfers | 1590 | 100% | \$ 1,672 | 100% |
| Disbursements: | | | | |
| Public Safety | 733 | 39% | 390 | 24% |
| Public Works | 326 | 18% | 438 | 27% |
| Health and Social Services | 3 | 0% | 3 | 0% |
| Culture and Recreation | 307 | 18% | 319 | 20% |
| Community and Economic Development | 44 | 2% | 43 | 3% |
| General Government | 241 | 13% | 245 | 15% |
| Debt Service | 203 | 11% | 0 | 0% |
| Capital Projects | | 0% | 180 | 11% |
| Total Disbursements | 1857 | 100% | \$ 1,620 | 100% |
| Total other financing sources | 1140 | | 19 | |
| Increase in cash basis net assets | 874 | | \$ 71 | |
| Cash basis net assets beginning of year | 1335 | | \$ 2,207 | |
| Cash basis net assets end of year | 2209 | | \$ 2,277 | |

The City's total receipts and transfers for governmental activities increased by \$81,763. The total cost of all programs and services decreased by \$236,675, with no new programs added this year.

The City did not increase general fund property tax rates for 2010. Property tax receipts increased by \$33,303. The City had no governmental funds borrowing in fiscal 2010.

The costs of all governmental activities this year was \$1.620 million compared to \$1.857 million last year. Overall the City's governmental program receipts, increased in 2010 from approximately \$524,650 to \$590,038. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,081,741 in property tax, local option tax, and tax increment financing receipts.

Total business type activities receipts for the fiscal year were \$897,729 compared to \$560,093 last year. Total disbursements and transfers for the fiscal year decreased by \$492,249 to a total of \$950,288.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

| Description | Year Ended June 30, 2010 | | | |
|---|--------------------------|-------------|---------------|-------------|
| | 2009 | % of Total | 2010 | % of Total |
| Receipts and transfers: | | | | |
| Program Receipts: | | | | |
| Charges for Service | | | | |
| Water | 217 | 39% | 250 | 28% |
| Sewer | 190 | 34% | 207 | 23% |
| Electric | 04 | 0% | 0 | 0% |
| Solid Waste Disposal | 109 | 19% | 116 | 13% |
| General Receipts: | | | | |
| Unrestricted interest on investments | 25 | 4% | 17 | 3% |
| Miscellaneous | 2319 | 3% | 23 | 4% |
| Other and Transfers in | 284 | 32% | 284 | 32% |
| Total receipts | <u>\$ 560</u> | <u>100%</u> | <u>\$ 897</u> | <u>100%</u> |
| Disbursements: | | | | |
| Water | 258 | 50% | 474 | 50% |
| Sewer | 210 | 32% | 304 | 32% |
| Electric | 849 | 0% | 0 | 0% |
| Solid Waste Disposal | 126 | 18% | 172 | 18% |
| Meter Deposits | | 0% | 0 | 0% |
| Total Disbursements | <u>\$ 1,443</u> | <u>100%</u> | <u>\$ 950</u> | <u>100%</u> |
| Transfers out | 74 | | 94 | |
| Increase (decrease) in cash balance | \$ (2,097) | | \$ (146) | |
| Cash basis net assets beginning of year | <u>\$ 2,938</u> | | <u>\$ 841</u> | |
| Cash basis net assets end of year | \$ 841 | | \$ 694 | |

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

- The Tax Increment Finance (TIF) Fund was established to account for a major urban renewal project within the City's business district. The cash balance in the TIF Fund was \$158,188 an increase of \$1,373 over the 2009 fund balance of \$156,814. A Northern Tier Commercial Urban Renewal Area was established by the City of Hudson in fiscal year 2010 with no revenues or expenses incurred.
- The Debt Service Fund recorded transfers of \$79,885 from the TIF Fund, \$99,115 from the Road Use Fund, and \$20,338 from the Sewer Fund. The remaining balance from the transfers in the Debt Service Fund was \$825. The City of Hudson issued revenue bond debt in the amount of \$230,000 for the water meter replacement project, and received a Planning & Design Loan from the Iowa Finance Authority in the amount of \$234,500.
- The Local Option Sales Tax Fund had receipts of \$261,647 and then transferred \$220,007 to the general fund. The net result was an increase \$41,640 leaving an ending Local Option Sales tax Fund balance of \$480,184.
- The Water Fund cash balance decreased by \$50,293 to \$365,204 due to expenses relating to capital projects. Ending balance for the Water Fund is \$365,204.
- The Sewer Fund cash balance decreased by \$116,010 to \$267,356 due to expenses relating to capital projects. Ending balance for the Sewer Fund is \$267,356.
- The Nonmajor Fund cash balance increased by \$19,594 to \$61,461. The increase was due to increased revenues in the waste management collection through making contractual payments for garbage collection paid first out of the utility billing receipts.
- Capital Project Funds were established for the Northern Business Park, Cedar Street Stormwater Project, Washington/Waterloo/6th Street Intersection, Safe Room with a combined ending fund cash balance of (\$80,341) with expenses to be recouped with TIF Financing, Grants, Internal Fund Transfers, or Bond Notes.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The net result of that amendment was to increase revenues by \$1,079,495. Budgeted expenditures increased by \$1,318,060 with 100% of the increase in expenditures attributable to governmental activities. The budget increase was primarily for capital street, water and sewer projects not included in the original FY10 budget.

DEBT ADMINISTRATION

At June 30, 2010 the City had \$2,300,000 of General Obligation Capital Loan Notes outstanding. In the fiscal year ended June 30, 2006 two loans were taken from the State Revolving Fund, a \$625,000 Water Revenue Capital Loan Note, on which \$26,000 plus interest was repaid, and a \$356,923 Sewer Revenue Capital Loan Note, on which \$20,000 plus interest was repaid. The City of Hudson issued revenue bond debt of \$46,000 Forgivable Loan per a Water Revenue Bond Note, and a \$183,000 Water Revenue Bond Note with only interest and loan origination fees paid in 2010. At the end of fiscal year 2010, only

\$158,123 was drawn down of the \$183,000 Water Revenue Bond Note. The net comparison is as show below:

Outstanding Debt at Year End
(Expressed in Thousands)

| Description | Year Ended June 30, 2010 | |
|--------------------------------------|--------------------------|------|
| | 2009 | 2010 |
| General Obligation-Capital Loan Note | 2400 | 2300 |
| 2006 Water Revenue Capital Loan Note | 553 | 532 |
| 2006 Sewer Revenue Capital Loan Note | 298 | 279 |
| 2010 Water Revenue Capital Loan Note | | 46 |
| 2010 Water Revenue Capital Loan Note | | 158 |
| Total Outstanding Debt | 3251 | 3315 |

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,300,000 is below its constitutional debt limit of \$7,483,072.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget.

Amounts available for appropriation in the operating budget are 5.287 million, a increase of \$1.178 million over the 2010 estimated budgetary amounts. This is due in a large part to a capital projects anticipated grants, debt proceeds, and increased property tax. Budgeted disbursements are \$1,179,000 more than budgeted for 2010. This increase is due to anticipated capital projects; most city departments budgetary requests experienced a 3% increase across the board, with no large reserve funds established. The City has added no major new programs; however, it is anticipated that expenses will cost \$48,978 more than anticipated revenues for fiscal year 2011 budgetary accounting. This number will fluctuate within the fiscal year 2011 due to capital project completion or delays, grant receipts, or emergency action items on behalf of the city.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sandie Deahl, City Coordinator/Clerk, 525 Jefferson Street, Hudson, Iowa, 50643. Phone (319) 988-3600.

Basic Financial Statements

City of Hudson

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2010

| | | | Program Receipts |
|---|---------------|-------------|------------------|
| | | | Oper. Grants, (|
| | | | Contributions, |
| | | Charges for | and Restricted |
| | Disbursements | Service | Interest |
| Functions / Programs: | | | |
| Governmental activities: | | | |
| Public safety | \$ 390,220 | 136,407 | 226,802 |
| Public works | 438,378 | - | - |
| Health and social services | 3,000 | - | - |
| Culture and recreation | 319,378 | 19,630 | 44,110 |
| Community and economic development | 43,225 | 28,405 | - |
| General government | 245,411 | 24,802 | - |
| Debt service | - | - | - |
| Capital projects | 160,226 | - | - |
| Business type | 20,338 | - | - |
| | | | |
| Total governmental activities | 1,620,176 | 209,244 | 270,912 |
| | | | |
| Business type activities: | | | |
| Sewer | 303,866 | 206,997 | - |
| Water | 474,546 | 250,362 | - |
| Nonmajor business type funds | 171,876 | 116,320 | - |
| | | | |
| Total business type activities | 950,288 | 573,679 | - |
| | | | |
| Total | \$ 2,570,464 | 782,923 | 270,912 |
| General Receipts: | | | |
| Property tax levied for: | | | |
| General purposes | | | |
| Tax increment financing | | | |
| Debt service | | | |
| Local option sales tax | | | |
| Unrestricted interest | | | |
| Rents | | | |
| SRF debt proceeds | | | |
| Miscellaneous | | | |
| Transfers | | | |
| | | | |
| Total general receipts and transfers | | | |
| | | | |
| Change in cash basis net assets | | | |
| Cash basis net assets beginning of year | | | |
| | | | |
| Cash basis net assets end of year | | | |
| Cash Basis Net Assets | | | |
| | | | |
| Restricted: | | | |
| Special Revenue | | | |
| Capital projects | | | |
| Debt service | | | |
| Unrestricted | | | |
| | | | |
| Total cash basis net assets | | | |

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2010

| | | Special Revenue | | Debt Service |
|--|--------------|----------------------|--------------------------|---------------------------|
| | General | Road Use Tax-#110 | Local Option Tax-#121 | G.O. Capital Note #202 |
| Receipts: | | | | |
| Property tax | \$ 614,239 | - | - | - |
| TIF collections | - | - | - | - |
| Other city tax | - | - | 260,965 | - |
| Licenses and permits | 47,850 | - | - | - |
| Use of money and property | 113,319 | - | 682 | - |
| Intergovernmental | 142,782 | 187,130 | - | - |
| Charges for service | 61,605 | - | - | - |
| Special assessments | - | - | - | - |
| Miscellaneous | 24,788 | - | - | - |
| Total receipts | 1,004,583 | 187,130 | 261,647 | - |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 390,220 | - | - | - |
| Public works | 188,511 | 140,452 | - | - |
| Health and social services | 3,000 | - | - | - |
| Culture and recreation | 319,378 | - | - | - |
| Community and economic development | 43,225 | - | - | - |
| General government | 245,411 | - | - | - |
| Debt service | - | - | - | 199,338 |
| Capital projects | - | - | - | - |
| Business Type | - | - | - | - |
| Total disbursements | 1,189,745 | 140,452 | - | 199,338 |
| Excess of receipts over disbursements | (185,162) | 46,678 | 261,647 | (199,338) |
| Other financing sources (uses): | | | | |
| Operating transfers in | 346,549 | - | - | 200,553 |
| Operating transfers out | - | (95,000) | (220,007) | - |
| Total other financing sources (uses) | 346,549 | (95,000) | (220,007) | 200,553 |
| Net change in cash balances | 161,387 | (48,322) | 41,640 | 1,215 |
| Cash balances beginning of year | 1,607,587 | 5,610 | 438,544 | (391) |
| Cash balances end of year | \$ 1,768,974 | (42,712) | 480,184 | 824 |
| Cash Basis Fund Balances | | | | |
| Unreserved: | | | | |
| General fund | \$ 1,768,974 | - | - | - |
| Special revenue funds | - | (42,712) | - | - |
| Capital projects | - | - | 480,184 | 824 |
| Debt service | - | - | - | - |
| Total cash basis fund balances | \$ 1,768,974 | (42,712) | 480,184 | 824 |

See notes to financial statements

| Capital Grants, Contributions and Restricted Interest | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|--|--|-----------------------------|-------------|
| | Governmental Activities | Business Type Activities | Total |
| - | (27,011) | - | (27,011) |
| 41,536 | (396,842) | - | (396,842) |
| - | (3,000) | - | (3,000) |
| - | (255,638) | - | (255,638) |
| - | (14,820) | - | (14,820) |
| - | (220,609) | - | (220,609) |
| - | - | - | - |
| - | (160,226) | - | (160,226) |
| - | (20,338) | - | (20,338) |
| 41,536 | (1,098,484) | - | (1,098,484) |
| - | - | (96,869) | (96,869) |
| - | - | (224,184) | (224,184) |
| - | - | (55,556) | (55,556) |
| - | - | (376,609) | (376,609) |
| 41,536 | (1,098,484) | (376,609) | (1,475,093) |
| | | | |
| | 735,485 | - | 735,485 |
| | 85,291 | - | 85,291 |
| | - | - | - |
| | 260,965 | - | 260,965 |
| | 38,023 | 16,709 | 54,732 |
| | 4,375 | - | 4,375 |
| | - | 209,113 | 209,113 |
| | 25,948 | 23,078 | 49,026 |
| | 19,000 | (19,000) | - |
| | 1,169,087 | 229,900 | 1,398,987 |
| | 70,603 | (146,709) | (76,106) |
| | 2,206,715 | 840,730 | 3,047,445 |
| | \$2,277,318 | 694,021 | 2,971,339 |
| | | | |
| | 24,704 | - | 24,704 |
| | 481,008 | - | 481,008 |
| | - | - | - |
| | 1,771,606 | 694,021 | 2,465,627 |
| | \$2,277,318 | 694,021 | 2,971,339 |

| Nonmajor Governmental Funds | Total |
|-----------------------------------|-----------|
| 121,246 | 735,485 |
| 85,291 | 85,291 |
| - | 260,965 |
| - | 47,850 |
| 2,636 | 116,637 |
| 9,246 | 339,158 |
| - | 61,605 |
| - | - |
| - | 24,788 |
| 218,419 | 1,671,779 |
| - | 390,220 |
| 10,300 | 339,263 |
| - | 3,000 |
| - | 319,378 |
| - | 43,225 |
| - | - |
| - | 245,411 |
| - | 199,338 |
| 80,341 | 80,341 |
| - | - |
| 90,641 | 1,620,176 |
| 127,778 | 51,603 |
| - | 547,102 |
| (213,095) | (528,102) |
| (213,095) | 19,000 |
| (85,317) | 70,603 |
| 155,365 | 2,206,715 |
| 70,048 | 2,277,318 |
| - | 1,768,974 |
| 70,048 | 27,336 |
| - | 481,008 |
| - | - |
| 70,048 | 2,277,318 |

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2010

| | |
|---|---------------------|
| Total governmental funds cash balances (page 10) | \$ 2,277,318 |
|---|---------------------|

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

**Cash basis net assets of governmental
activities (page 8)**

\$ 2,277,318

Net change in cash balances (page 10)

\$ 70,603

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

**Change in cash balance of governmental
activities (page 8)**

\$ 70,603

See notes to financial statements

City of Hudson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2010

| | Sewer | Water | Nonmajor | Total |
|--|------------|-----------|----------|-----------|
| Operating receipts: | | | | |
| Charges for service | \$ 206,997 | 250,362 | 116,320 | 573,679 |
| Use of money and property | 7,146 | 9,563 | - | 16,709 |
| Miscellaneous | 23,078 | - | - | 23,078 |
| Total operating receipts | 237,221 | 259,925 | 116,320 | 613,466 |
| Operating disbursements: | | | | |
| Business type activities | 303,866 | 474,546 | 171,876 | 950,288 |
| Total operating disbursements | 303,866 | 474,546 | 171,876 | 950,288 |
| Excess (deficiency) of receipts over (under) disbursements | (66,645) | (214,621) | (55,556) | (336,822) |
| Non-operating receipts (disbursements): | | | | |
| Operating transfers in | - | - | 75,150 | 75,150 |
| Operating transfers out | (49,365) | (44,785) | - | (94,150) |
| SRF Proceeds | - | 209,113 | - | 209,113 |
| Total financing sources(uses) | (49,365) | 164,328 | 75,150 | 190,113 |
| Net change in cash balances | (116,010) | (50,293) | 19,594 | (146,709) |
| Cash balances beginning of year | 383,366 | 415,497 | 41,867 | 840,730 |
| Cash balances end of year | \$ 267,356 | 365,204 | 61,461 | 694,021 |
| Cash Basis Fund Balances | | | | |
| Unreserved | \$ 267,356 | 365,204 | 47,259 | 679,819 |
| Reserved | - | - | 14,202 | 14,202 |
| Total cash basis fund balances | \$ 267,356 | 365,204 | 61,461 | 694,021 |

See notes to financial statements

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2010

| | |
|---|------------|
| Total enterprise funds cash balances (page 12) | \$ 694,021 |
|---|------------|

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

**Cash basis net assets of business type
activities (page 8)**

\$ 694,021

Net change in cash balances (page 12)

\$ (146,709)

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

**Change in cash balance of business type
activities (page 8)**

\$ (146,709)

See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Hudson is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

These financial statements present the City of Hudson (the primary government) and excludes Hudson Municipal Electric Utility (HMEU). HMEU is a legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Utility is governed by a five member board appointed by the Mayor and approved by the City Council. HMEU is a public utility providing electrical service to the citizens of Hudson. Complete financial statements can be obtained from the Utility's administrative office.

A. Reporting Entity

For financial reporting purposes, the City of Hudson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Black Hawk County Consolidated Public Safety Communications Board and the Black Hawk County Solid Waste Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund (#110) is used to account for road construction and maintenance.

The Local Option Tax Fund (#121) is used to account for the receipt and disbursement of the Local Option Tax.

The Debt Service Fund (#202) is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise Water Fund accounts for the operation and maintenance of the City's water system.

C. Measurement Focus and Basis of Accounting

The City of Hudson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010 the City did not exceed amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper;

perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2010, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of the General Obligation Capital Loan Notes and Revenue Bonds are as follows:

| Year Ending June | Capital Obligation <u>Capital Loan Notes</u> | | Sewer Revenue Bonds Clean Water SRF | | Water Revenue Bonds Drinking Water SRF | |
|------------------------|---|-----------------|--|-----------------|---|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| | | | | | | |
| 2011 | 105,000 | 92,000 | 21,000 | 8,368 | 26,000 | 15,960 |
| 2012 | 110,000 | 87,800 | 22,000 | 7,738 | 27,000 | 15,180 |
| 2013 | 110,000 | 80,273 | 22,000 | 7,078 | 28,000 | 14,370 |
| 2014 | 115,000 | 77,025 | 23,000 | 6,418 | 29,000 | 13,530 |
| 2015 | 125,000 | 73,470 | 23,000 | 5,728 | 30,000 | 12,660 |
| 2016-2020 | 695,000 | 300,623 | 128,000 | 17,718 | 162,000 | 49,290 |
| 2021-2025 | 845,000 | 151,590 | 39,923 | 1,555 | 189,000 | 23,520 |
| 2026-2030 | <u>195,000</u> | <u>8,385</u> | <u>-</u> | <u>-</u> | <u>41,000</u> | <u>1,555</u> |
| | <u>2,300,000</u> | <u>871,166</u> | <u>278,923</u> | <u>54,601</u> | <u>532,000</u> | <u>146,065</u> |

| Year Ending June | Water Rev Bonds 2010 Drinking Water SRF | | Water Revenue Bonds DW SRF Forgivable | | Total | |
|------------------------|--|-----------------|--|-----------------|------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| | | | | | | |
| 2011 | 7,000 | 4,689 | 1,000 | 1,380 | 160,000 | 122,396 |
| 2012 | 7,000 | 4,479 | 2,000 | 1,350 | 168,000 | 116,546 |
| 2013 | 7,000 | 4,269 | 2,000 | 1,290 | 169,000 | 107,279 |
| 2014 | 7,000 | 4,059 | 2,000 | 1,230 | 176,000 | 102,261 |
| 2015 | 8,000 | 3,849 | 2,000 | 1,170 | 188,000 | 96,876 |
| 2016-2020 | 42,000 | 15,614 | 10,000 | 4,950 | 1,037,000 | 388,195 |
| 2021-2025 | 48,000 | 8,954 | 12,000 | 3,420 | 1,133,923 | 189,039 |
| 2026-2030 | <u>32,123</u> | <u>1,791</u> | <u>15,000</u> | <u>1,350</u> | <u>283,123</u> | <u>13,081</u> |
| | <u>158,123</u> | <u>47,703</u> | <u>46,000</u> | <u>16,140</u> | <u>3,315,046</u> | <u>1,135,675</u> |

Capital Obligation – Capital Loan Notes:

The City issued \$2,600,000 General Obligation Capital Loan Notes, dated June 1, 2006, with variable interest ranging from 3.85% to 4.30%. The notes were issued for the purpose of paying costs of construction of improvements or extensions to the Municipal Water Utility, and construction or reconstruction of streets, water, sewer and storm sewer, together with related work.

- Principal and interest on the notes will be paid from the Debt Service Fund.
- The notes are subject to prepayment at the option of the Issuer; as a whole or in part, in any order of maturity and within a maturity by lot from any source of available funds, beginning June 1, 2012 and on any date thereafter, at a prepayment price equal to the principal amount of the Notes, together with accrued interest to the date fixed for prepayment, without premium.

Revenue Bonds:

The City has two Revenue Bonds from Iowa Finance Authority and its partner Iowa Department of Natural Resources through the State Revolving Fund.

\$500,000 Sewer Revenue Capital Loan Note (SRF):

The Sewer Revenue Capital Loan Note, series 2006, with a principal sum of \$500,000 has an interest rate of 3% and matures June 1, 2026. As of June 30, 2010 the City had borrowed \$356,923 on this note. The funds were used in conjunction with other City funds to construct a diffuser across the receiving stream with the objective of meeting NPDES effluent limits. This project also includes the repair of the lagoon liner to prevent leakage. Sludge removal and installation of emergency power are also part of facility improvements. There are three collection system improvements proposed to replace existing sewers because they are hydraulically overloaded and have excessive infiltration and inflow."

Interest is payable semiannually on the 1st day of June and December in each year. Principal is payable annually on the first day of June. The City paid \$8,968 interest and \$20,000 in principal during year ended June 30, 2010. Balance at June 30, 2010 was 278,925.

The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten (10) year anniversary date of the Loan and Disbursement Agreement. Any optional redemption of this Note may be made from any funds regardless of source, in whole or from time to time in part, in reverse order of maturity, by lot by giving thirty (30) days notice of redemption by certified or registered mail, to the Iowa Finance Authority or other registered owner of the Note.

The City has set up a Sinking Fund to receipt money from the Revenue Fund for the purpose of paying principal and interest on the Notes. The fund shall be known as the "Sewer Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus 1/12th of the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable.

\$630,000 Water Revenue Capital Loan Note:

The Water Revenue Capital Loan Note, series 2006, with a principal sum of \$630,000 has an interest rate of 3% and matures June 1, 2026. As of June 30, 2010 the City had borrowed \$625,000 on this note. The funds were used for the purpose of paying costs of construction of certain improvements and extensions to the Municipal Water Utility of the City.

Interest is payable semiannually on the 1st day of June and December in each year. Principal is payable annually on the first day of June. The City paid \$16,644 in interest and \$26,000 in principal during year ended June 30, 2010. Balance at June 30, 2010 was \$532,000.

The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten (10) year anniversary date of the Loan and Disbursement Agreement. Any optional redemption of this

Note may be made from any funds regardless of source, in whole or from time to time in part, in reverse order of maturity, by lot by giving thirty (30) days notice of redemption by certified or registered mail, to the Iowa Finance Authority or other registered owner of the Note.

The City has set up a Sinking Fund to receipt money from the Revenue Fund for the purpose of paying principal and interest on the Notes. The fund shall be known as the "Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus 1/12th of the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable.

\$183,000 Water Revenue Loan and Disbursement Agreement:

The Water Revenue Loan and Disbursement Agreement, series 2010A issued pursuant with provisions of Sections 384.24A and 384.83 of the Code of Iowa, 2009, with a maximum loan amount of \$183,000, has an interest rate of 3% and matures June 1, 2030. As of June 30, 2010 the City had borrowed \$158,123 on this note. Iowa Finance Authority deducted a 1% initiation fee of \$1,830. The funds are to be used to pay a portion of the cost of constructing improvements on extensions to the Utility.

Bonds are subject to optional redemption at par plus accrued with prior written consent of the Iowa Finance Authority or if Project is damaged or destroyed. Redemption is inverse order of maturity upon no less than thirty days notice of redemption.

Interest is payable semiannually on the first day of June and December in each year beginning June 1, 2010. Principal is payable annually on the first day of June each year beginning June 1, 2011.

The City is to create a Water Revenue Bond Sinking Fund, commencing March 1, 2010, to be used for the purpose of paying principal and interest on the Outstanding Notes. As of June 30, 2010 the City had not set up such sinking fund.

\$46,000 Forgivable Loan and Disbursement Agreement:

The City has entered into a Forgivable Loan and Disbursement Agreement with the Iowa Department of Natural Resources. The proceeds are to be used for the operation or infrastructure of the Water System for the purpose of providing safe drinking water to the customers thereof. The loan will be forgiven as long as the City fulfills its obligations under the agreement.

The City's obligation under the agreement is evidenced by a duly authorized and issued water revenue bond and shall be payable if the City does not fulfill its obligation. The Water Revenue Bond, series 2010B issued pursuant with provisions of Sections 384.24A and 384.83 of the Code of Iowa, 2009, has an interest rate of 3% and matures June 1, 2030.

Bonds are subject to optional redemption at par plus accrued with prior written consent of the Iowa Finance Authority or if Project is damaged or destroyed. Redemption is inverse order of maturity upon no less than thirty days notice of redemption.

Interest is payable semiannually on the first day of June and December in each year beginning June 1, 2011. Principal is payable annually on the first day of June each year beginning June 1, 2011.

The City is to create a Water Revenue Bond Sinking Fund, commencing June 1, 2010, to be used for the purpose of paying principal and interest on the Outstanding Notes. As of June 30, 2010 the City had not set up such sinking fund.

(4) Pension and Retirement Benefits

Iowa Public Employees Retirement System-

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$43,523, \$39,113 and \$39,352 respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description-The City operates a single-employee retiree benefit plan which provides medical/ prescription drug benefits for retirees and their spouses. There are 130 active and retired members in the plan. Participants must be age 55 or older at retirement.

The medical/ prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/ prescription drug benefits as active employees.

Funding Policy- The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$457 for single coverage, \$865 for employee and children, \$936 for employee and spouse and \$1,403 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$72,348 and plan members eligible for benefits contributed \$11,677 to the plan.

(6) Compensated Absences

City of Hudson employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. It is payable when used and may be accumulated at a rate of 10 days per year, to a maximum of 90 days. At the end of employment, any employee with accumulated sick leave will be paid 15% of their accumulated sick leave. Vacation is payable when used and accumulates based on an employee's anniversary date. Vacation may be accumulated past the anniversary date in isolated cases specifically approved by the City council. The City also has a policy of paying an employee up to 50% of the employee's accumulated vacation time, at the current pay rate. Employees are also able to convert unpaid overtime hours into comp time at time and one-half. These accumulations are not recognized as disbursements by the City until used or paid. At the end of employment, the City is liable for earned vacation, for comp time, and for accumulated sick leave. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2010 is \$19,297. The City's approximate liability for earned comp time payable to employees at June 30, 2010 is \$13,601. The City's approximate liability for sick leave at June 30, 2010 is \$11,243. This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|---------------------------|----------------------|------------------|
| General | Capital Projects: | |
| | Local Option | \$ 220,007 |
| | Special Revenue: | |
| | Employee Benefits | <u>126,542</u> |
| | | <u>346,549</u> |
| Debt Service: | Capital Projects: | |
| | TIF | 86,553 |
| | Special Revenue: | |
| | Road Use Tax | 95,000 |
| | Business Type: | |
| | Sewer | <u>19,000</u> |
| | | <u>200,553</u> |
| Business Type: | Business Type: | |
| Water Sinking | Water | <u>44,665</u> |
| Sewer Sinking | Sewer Sinking | <u>30,365</u> |
| Total Interfund Transfers | | <u>\$622,132</u> |

(8) Related Party Transactions

The City had business transactions between the City and City employees totaling \$5,785 during the year ended June 30, 2010.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balance

The Special Revenue-Road Use Tax, I Jobs, Employee Benefits and TIF Funds and the Capital Projects-Safe Room, North Tier and Cedar Street Funds had a deficit balances at June 30, 2010. The City will eliminate with the receipt of funds or the transfer of funds.

(11) Landfill Commitment

The City of Hudson participates in a 28E organization with Black Hawk County and other cities in Black Hawk County. This organization is the Black Hawk County Solid Waste Management Commission.

(12) Hudson Municipal Communications Utility

The City has formed a Hudson Municipal Communication Utility (HMCU) under code section 388.10.2 to determine status of telecommunications for the City of Hudson. MCU's financial activity will be kept separate from the City and it will receive its own audit. During the year ended June 30, 2006 The City loaned MCU \$5,000.

During the year ended June 30, 2007, The City loaned MCU \$15,000.

During the year ended June 30, 2009 HMCU paid \$13,485 in principal and \$1,000 in interest on the above loan. This left a balance of \$6,515 due as of June 30, 2009.

During the year ended June 30, 2010 the City agreed to accept \$1,515 as final payment on this debt. This payment was received in July 2010.

(13) Hudson Electric Municipal Utility

The City has formed Hudson Municipal Electric Utility (HMEU) and transferred \$35,000 during the year ended June 30, 2008 as start up costs. On July 1, 2008 the City transferred \$804,660 to Hudson Electric Municipal Utility.

On July 1, 2008 Hudson Municipal Electric Utility (HMEU) took over all electric operations of the City. From July 1, 2008 to December 15, 2008 HMEU did the billing and collection on all utilities of the City, retaining collections for electric billing and submitting all other collections to the City. On December 15, 2008 the City resumed billing and collection for all utilities except electric billing. HMEU had done the electric billing and collection exclusively since that date.

(14) Equipment Leases

The City had a lease with Waterloo Implement for a John Deere Tractor and a #673 John Deere loader. The City paid \$5,196 on the lease for the year ended June 30, 2010.

The City has a lease with Waterloo Implement for a John Deere zero turn mower. The lease is for the period May 1, 2010 to December 1, 2010. The city paid \$2,700 on this lease for the year ended June 30, 2010.

(15) Litigation

There is no pending litigation pending involving the City of Hudson.

(16) Subsequent Events

No significant subsequent events were noted.

Required Supplementary Information

City of Hudson

Budgetary Comparison Schedule
of Receipts, disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information

Year ended June 30, 2010

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted | Net |
|--|---------------------------------|--------------------------------|---|-----------|
| Receipts: | | | | |
| Property tax | \$ 735,485 | - | - | 735,485 |
| Tax increment financing collections | 85,291 | - | - | 85,291 |
| Other city tax | 260,965 | - | - | 260,965 |
| Licenses and permits | 47,850 | - | - | 47,850 |
| Use of money and property | 116,637 | 16,709 | - | 133,346 |
| Intergovernmental | 339,158 | - | - | 339,158 |
| Charges for service | 61,605 | 573,679 | - | 635,284 |
| Special assessments | - | - | - | - |
| Miscellaneous | 24,788 | 23,078 | - | 47,866 |
| Total receipts | 1,671,779 | 613,466 | - | 2,285,245 |
| Disbursements: | | | | |
| Public safety | 390,220 | - | - | 390,220 |
| Public works | 339,263 | - | - | 339,263 |
| Health and social services | 3,000 | - | - | 3,000 |
| Culture and recreation | 319,378 | - | - | 319,378 |
| Community and economic developr | 43,225 | - | - | 43,225 |
| General government | 245,411 | - | - | 245,411 |
| Debt service | 199,338 | - | - | 199,338 |
| Capital projects | 80,341 | - | - | 80,341 |
| Business type activities | - | 950,288 | - | 950,288 |
| Total disbursements | 1,620,176 | 950,288 | - | 2,570,464 |
| Excess of receipts over disbursements | 51,603 | (336,822) | - | (285,219) |
| Other financing sources, net | 19,000 | 190,113 | - | 209,113 |
| Excess of receipts and other financing sources over disbursements and other financing uses | 70,603 | (146,709) | - | (76,106) |
| Balances beginning of year | 2,206,715 | 840,730 | - | 3,047,445 |
| Balances end of year | \$ 2,277,318 | 694,021 | - | 2,971,339 |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|-----------|-----------------|
| Original | Final | Net Variance |
| 728,263 | 728,263 | 7,222 |
| 88,553 | 88,553 | (3,262) |
| 222,608 | 222,608 | 38,357 |
| - | - | 47,850 |
| - | - | 133,346 |
| 530,340 | 1,574,855 | (1,235,697) |
| 926,675 | 961,655 | (326,371) |
| - | - | - |
| - | - | 47,866 |
| 2,496,439 | 3,575,934 | (1,290,689) |
| 444,039 | 455,577 | 65,357 |
| 409,831 | 452,869 | 113,606 |
| 3,000 | 3,000 | - |
| 336,389 | 362,114 | 42,736 |
| 136,583 | 166,583 | 123,358 |
| 245,771 | 245,771 | 360 |
| 194,767 | 194,767 | (4,571) |
| 101,816 | 615,800 | 535,459 |
| 612,668 | 1,306,443 | 356,155 |
| 2,484,864 | 3,802,924 | 1,232,460 |
| 11,575 | (226,990) | (58,229) |
| - | - | 209,113 |
| 11,575 | (226,990) | 150,884 |
| 3,050,300 | 3,050,300 | (2,855) |
| 3,061,875 | 2,823,310 | 148,029 |

City of Hudson

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended and increased budgeted receipts by \$1,079,495 and increased budgeted disbursements by \$1,318,060.

Other Supplementary Information

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

| | NonMajor Special Revenue Schedule 2 | NonMajor Capital Projects Schedule 3 | Total |
|---|--|---|-----------|
| Receipts: | | | |
| Property tax | \$ 121,246 | - | 121,246 |
| Tax increment financing collections | 85,291 | - | 85,291 |
| Other city tax | - | - | - |
| Use of money and property | 2,636 | - | 2,636 |
| Intergovernmental | 9,246 | - | 9,246 |
| Total receipts | 218,419 | - | 218,419 |
| Disbursements: | | | |
| Operating: | | | |
| Public Works | 10,300 | - | 10,300 |
| Capital Projects | - | 80,341 | 80,341 |
| Total disbursements | 10,300 | 80,341 | 90,641 |
| Excess (deficiency) of receipts over (under) disbursements | 208,119 | (80,341) | 127,778 |
| Other financing sources: | | | |
| Operating transfers in | - | - | - |
| Operating transfers out | (213,095) | - | (213,095) |
| Net change in cash balances | (4,976) | (80,341) | (85,317) |
| Cash balances beginning of year | 155,365 | - | 155,365 |
| Cash balances end of year | \$ 150,389 | (80,341) | 70,048 |

Cash Basis Fund Balances

| | | | |
|------------------|------------|----------|----------|
| Unreserved: | | | |
| Special revenue | \$ 150,389 | - | 150,389 |
| Capital Projects | - | (80,341) | (80,341) |
| | \$ 150,389 | (80,341) | 70,048 |

See accompanying independent auditor's report

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds-Special Revenue

As of and for the year ended June 30, 2010

| | Special Revenue | | | | | |
|---|-----------------|----------------------|----------|-----------------|----------------|-----------|
| | #111 | #112 | #127 | #125 | #126 | |
| | I JOBS | Employee Benefits | TIF | TIF CAP PROJ | TIF SURPLUS | Total |
| Receipts: | | | | | | |
| Property tax | \$ - | 121,246 | - | - | - | 121,246 |
| Tax increment financing collections | - | - | 85,291 | - | - | 85,291 |
| Other city tax | - | - | - | - | - | - |
| Use of money and property | - | - | - | - | 2,636 | 2,636 |
| Intergovernmental | 9,246 | - | - | - | - | 9,246 |
| Total receipts | 9,246 | 121,246 | 85,291 | - | 2,636 | 218,419 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public works | 10,300 | - | - | - | - | 10,300 |
| Community and economic development | - | - | - | - | - | - |
| Debt service | - | - | - | - | - | - |
| Capital Projects | - | - | - | - | - | - |
| Total disbursements | 10,300 | - | - | - | - | 10,300 |
| Excess (deficiency) of receipts over (under) disbursements | (1,054) | 121,246 | 85,291 | - | 2,636 | 208,119 |
| Other financing sources: | | | | | | |
| Operating transfers in | - | - | - | - | - | - |
| Operating transfers out | - | (126,542) | (86,553) | - | - | (213,095) |
| Net change in cash balances | (1,054) | (5,296) | (1,262) | - | 2,636 | (4,976) |
| Cash balances beginning of year | - | (1,449) | (260) | 11,338 | 145,736 | 155,365 |
| Cash balances end of year | \$ (1,054) | (6,745) | (1,522) | 11,338 | 148,372 | 150,389 |
| Cash Basis Fund Balances | | | | | | |
| Unreserved: | | | | | | |
| Special revenue | \$ (1,054) | (6,745) | (1,522) | 11,338 | 148,372 | 150,389 |

See accompanying independent auditor's report

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds-Capital Projects

As of and for the year ended June 30, 2010

| | Capital Projects | | | |
|--|----------------------|-----------------------|-------------------------|-----------------|
| | #304 SAFE ROOM | #305 North Tier | #306 Cedar Street | Total |
| Receipts: | | | | |
| Property tax | \$ - | - | - | - |
| Tax increment financing collections | - | - | - | - |
| Other city tax | - | - | - | - |
| Use of money and property | - | - | - | - |
| Intergovernmental | - | - | - | - |
| Total receipts | - | - | - | - |
| Disbursements: | | | | |
| Operating: | | | | |
| Capital Projects | 12,249 | 61,373 | 6,719 | 80,341 |
| Total disbursements | 12,249 | 61,373 | 6,719 | 80,341 |
| Excess (deficiency) of receipts over (under) disbursements | (12,249) | (61,373) | (6,719) | (80,341) |
| Other financing sources: | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | - | - | - | - |
| Net change in cash balances | (12,249) | (61,373) | (6,719) | (80,341) |
| Cash balances beginning of year | - | - | - | - |
| Cash balances end of year | <u>\$(12,249)</u> | <u>(61,373)</u> | <u>(6,719)</u> | <u>(80,341)</u> |
| Cash Basis Fund Balances | | | | |
| Unreserved: | | | | |
| Capital projects fund | <u>\$(12,249)</u> | <u>(61,373)</u> | <u>(6,719)</u> | <u>(80,341)</u> |
| Total cash basis fund balances | <u>\$(12,249)</u> | <u>(61,373)</u> | <u>(6,719)</u> | <u>(80,341)</u> |

See accompanying independent auditor's report

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2010

| | Meter Deposits | Solid Waste | Water Sinking | Sewer Sinking | Storm Water | Electric | Total |
|---|-------------------|----------------|------------------|------------------|----------------|----------|----------|
| Operating Receipts: | | | | | | | |
| Charges for service | \$ - | 116,302 | - | - | 18 | - | 116,320 |
| Use of money and property | - | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | - | - |
| Total operating receipts | - | 116,302 | - | - | 18 | - | 116,320 |
| Operating Disbursements: | | | | | | | |
| Business type activities | | 110,928 | 35,717 | 25,231 | - | - | 171,876 |
| Total operating disbursements | - | 110,928 | 35,717 | 25,231 | - | - | 171,876 |
| Excess (deficiency) of receipts over (under) disbursements | - | 5,374 | (35,717) | (25,231) | 18 | - | (55,556) |
| Other financing sources: | | | | | | | |
| Operating transfers in | - | - | 44,785 | 30,365 | - | - | 75,150 |
| Operating transfers out | - | - | - | - | - | - | - |
| Net change in cash balances | - | 5,374 | 9,068 | 5,134 | 18 | - | 19,594 |
| Cash balances beginning of year | - | 25,364 | - | - | - | 16,503 | 41,867 |
| Cash balances end of year | \$ - | 30,738 | 9,068 | 5,134 | 18 | 16,503 | 61,461 |
| Cash Basis Fund Balances | | | | | | | |
| Unreserved: | \$ - | 30,738 | - | - | 18 | 16,503 | 47,259 |
| Reserved | - | - | 9,068 | 5,134 | - | - | 14,202 |
| Total cash basis fund balances | \$ - | 30,738 | 9,068 | 5,134 | 18 | 16,503 | 61,461 |

See accompanying independent auditor's report

| Issued During Year | Redeemed During Year | Balance 6/30/2010 | Interest Paid | Interest Due and Unpaid |
|--------------------------|----------------------------|----------------------|------------------|-------------------------------|
| - | 100,000 | 2,300,000 | 98,938 | - |
| - | 20,000 | 278,923 | 4,483 | - |
| 5,000 | 26,000 | 532,000 | 8,322 | - |
| 158,123 | - | 158,123 | - | - |
| 46,000 | - | 46,000 | - | - |

City of Hudson

Bond and Note Maturities

June 30, 2010

| Year Ending June 30, | General Obligation Capital Loan Notes | | Sewer Revenue Clean Water SRF | | Water Revenue Drinking Water SRF | |
|----------------------------|--|--------------------|----------------------------------|--------|-------------------------------------|----------------|
| | Issued June 1, 2006 | | Issued June 16, 2006 | | Issued June 16, 2006 | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2011 | 4.00 | 105,000 | 3.00 | 21,000 | 3.00 | 26,000 |
| 2012 | 4.00 | 110,000 | 3.00 | 22,000 | 3.00 | 27,000 |
| 2013 | 3.85 | 110,000 | 3.00 | 22,000 | 3.00 | 28,000 |
| 2014 | 3.90 | 115,000 | 3.00 | 23,000 | 3.00 | 29,000 |
| 2015 | 3.95 | 125,000 | 3.00 | 23,000 | 3.00 | 30,000 |
| 2016 | 4.00 | 125,000 | 3.00 | 24,000 | 3.00 | 31,000 |
| 2017 | 4.10 | 130,000 | 3.00 | 25,000 | 3.00 | 32,000 |
| 2018 | 4.10 | 140,000 | 3.00 | 26,000 | 3.00 | 32,000 |
| 2019 | 4.10 | 145,000 | 3.00 | 26,000 | 3.00 | 33,000 |
| 2020 | 4.15 | 155,000 | 3.00 | 27,000 | 3.00 | 34,000 |
| 2021 | 4.20 | 155,000 | 3.00 | 28,000 | 3.00 | 35,000 |
| 2022 | 4.20 | 160,000 | 3.00 | 11,923 | 3.00 | 37,000 |
| 2023 | 4.25 | 170,000 | | | 3.00 | 38,000 |
| 2024 | 4.25 | 175,000 | | | 3.00 | 39,000 |
| 2025 | 4.30 | 185,000 | | | 3.00 | 40,000 |
| 2026 | 4.30 | 195,000 | | | 3.00 | 41,000 |
| 2027 | | | | | | |
| 2028 | | | | | | |
| 2029 | | | | | | |
| 2030 | | | | | | |
| | | <u>\$2,300,000</u> | | | <u>278,923</u> | <u>532,000</u> |

Note:

Sewer Revenue Note totals \$500,000, but at June 30, 2010 the City had borrowed only \$356,923 and had paid back \$78,000 leaving a balance of \$278,923. The above is based on the original schedule.

Water Revenue Note totals \$630,000. As of June 30, 2010 the City had paid back \$98,000 leaving a balance of \$532,000.

Water Revenue Bonds Note totals \$46,000 and has a balance of \$46,000 as of June 30, 2010. This loan is forgivable if the City satisfies certain criteria.

Water Revenue Note totals \$183,000, but at June 30, 2010 the City had borrowed \$158,123 less a 1% initiation fee. The above is based on the original schedule.

See accompanying independent auditor's report

| Water Revenue Bonds DW SRF Forgivable | | Water Revenue Bonds Drinking Water SRF | |
|--|---------------|---|----------------|
| Issued Feb. 15, 2010 | | Issued Feb. 15, 2010 | |
| Interest | | Interest | |
| Rates | Amount | Rate | Amount |
| 3.00 | 1,000 | 3.00 | 7,000 |
| 3.00 | 2,000 | 3.00 | 7,000 |
| 3.00 | 2,000 | 3.00 | 7,000 |
| 3.00 | 2,000 | 3.00 | 7,000 |
| 3.00 | 2,000 | 3.00 | 8,000 |
| 3.00 | 2,000 | 3.00 | 8,000 |
| 3.00 | 2,000 | 3.00 | 8,000 |
| 3.00 | 2,000 | 3.00 | 8,000 |
| 3.00 | 2,000 | 3.00 | 9,000 |
| 3.00 | 2,000 | 3.00 | 9,000 |
| 3.00 | 2,000 | 3.00 | 9,000 |
| 3.00 | 2,000 | 3.00 | 9,000 |
| 3.00 | 2,000 | 3.00 | 10,000 |
| 3.00 | 3,000 | 3.00 | 10,000 |
| 3.00 | 3,000 | 3.00 | 10,000 |
| 3.00 | 3,000 | 3.00 | 11,000 |
| 3.00 | 3,000 | 3.00 | 11,000 |
| 3.00 | 3,000 | 3.00 | 10,123 |
| 3.00 | 3,000 | | |
| 3.00 | 3,000 | | |
| | <u>46,000</u> | | <u>158,123</u> |

Schedule 7

City of Hudson

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Seven Years Ended June 30

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|------------------------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Receipts: | | | | | | | |
| Property tax | \$ 735,485 | 702,182 | 664,085 | 663,057 | 679,949 | 579,612 | 368,284 |
| Tax increment financing | 85,291 | 85,849 | 83,541 | 53,445 | 61,042 | 337,583 | 486,161 |
| Other city tax | 260,965 | 256,879 | 252,649 | 224,717 | 233,252 | 218,195 | 208,337 |
| Licenses and permits | 47,850 | 39,445 | 43,283 | 37,024 | 40,125 | 33,009 | 29,230 |
| Use of money and property | 116,637 | 109,803 | 87,998 | 114,536 | 104,153 | 76,821 | 131,948 |
| Intergovernmental | 339,158 | 304,243 | 329,042 | 288,862 | 400,681 | 430,497 | 429,640 |
| Charges for service | 61,605 | 65,139 | 63,575 | 41,355 | 25,971 | 27,054 | 29,522 |
| Special assessments | - | - | - | - | - | - | - |
| Miscellaneous | 24,788 | 26,476 | 76,147 | 32,389 | 37,620 | 32,569 | 30,173 |
| Total | \$1,671,779 | 1,590,016 | 1,600,320 | 1,455,385 | 1,582,793 | 1,735,340 | 1,713,295 |
| Disbursements: | | | | | | | |
| Operating: | | | | | | | |
| Public safety | \$ 390,220 | 733,212 | 407,123 | 408,563 | 435,337 | 344,562 | 392,908 |
| Public works | 339,263 | 325,640 | 332,346 | 960,408 | 599,231 | 321,786 | 330,094 |
| Health and social services | 3,000 | 3,045 | 3,000 | 4,500 | 2,500 | 1,787 | 664 |
| Culture and recreation | 319,378 | 306,881 | 310,679 | 314,752 | 276,246 | 346,490 | 389,201 |
| Community and economic development | 43,225 | 44,230 | 46,921 | 601,328 | 140,978 | 74,673 | 158,660 |
| General government | 245,411 | 240,505 | 241,598 | 227,196 | 245,170 | 208,078 | 205,096 |
| Debt service | 199,338 | 203,338 | 206,939 | 106,938 | 952,913 | 177,773 | 177,063 |
| Capital projects | 80,341 | - | 383,001 | - | 38,395 | 123,745 | - |
| Business type | - | - | - | - | - | - | - |
| Total | \$1,620,176 | 1,856,851 | 1,931,607 | 2,623,685 | 2,690,770 | 1,598,894 | 1,653,686 |

See accompanying independent auditor's report

City of Hudson

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 28, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hudson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Hudson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hudson's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Hudson's financial statements that is more than inconsequential will not be prevented or detected by the City of Hudson's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Hudson's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-D-10, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hudson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the city's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hudson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit Hudson's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the city of Hudson and other parties to whom Hudson may report, including federal awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

October 28, 2010

City of Hudson

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-10 Reconciliation of Bank Statement – One important aspect of the control of cash is the reconciliation of City's Fund Balance to bank statements. That reconciliation should be reviewed by another individual and in turn reconciled to the Clerk's report. We noted that the City was reconciling to bank statements, but adjustments were not being made to reconcile the City's Fund Balance to the reconciliations.

Recommendation – All adjustments should be made to the City's Fund Balance so as to agree with bank reconciliations.

Response – The City will be sure that all adjustments to the Clerk's report will be reflected on the bank reconciliations.

Conclusion – Response accepted.

II-B-10 Significant Deficiency – The City of Hudson, Iowa prepares financial statements, but does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Management Response – Management feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2010

- II-C-10 Miscoding of Expenditures –Expenditures budgeted under capital projects were coded to community and economic development. Transfers to the Water Sinking Fund from the Water Fund were coded as a reduction to fees. Transfers to the Sewer Sinking Fund from the Sewer Fund were coded as a reduction to fees

Recommendation – The City should compare expenditures to the budget to ensues that expenditures are coded under the proper line item. Transfers In should equal Transfers Out. In the future Transfers Out from the Water and the Sewer Fund should be coded to Transfers Out and not as a deduction of fees.

Response – The City will review expenditures and compare to the budget to ensure proper coding. The City is now recording these monthly transfers as Transfer Out and not as a reduction of fees.

Conclusion – Response accepted.

- II-D-10 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. City of Hudson is a small city with an office staff consisting of one utility clerk, one accounts payable/data entry clerk, one receptionist/secretary and a city clerk. All four employees can have custody of cash before depositing. The utility clerk, accounts payable/data entry clerk and the city clerk all can record cash as it is received. The utility clerk, accounts payable/data entry clerk and the receptionist/secretary prepare deposit tickets. The utility clerk, accounts payable/data entry and the city clerk compare deposits to records as well as prepare bank reconciliations.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its controls procedures in an attempt to maximum internal control where possible under the circumstances.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

Part III: Findings and Questioned Costs for Federal Awards:

There were no findings and questioned costs for federal awards.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-10 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2010

IV-B-10 Certified Budget – City disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the Debt Service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-C-10 Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-D-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-10 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|--------------------------------|---------------|
| Mary Bucy, Library Director, Owner of Bucy Cleaning | Janitorial services | \$5,786 |

The transaction with the Library Director does not appear to represent a conflict of interest since it was entered into through competitive bidding.

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2010

- IV-F-10 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-H-10 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

City of Hudson
Staff

This audit was performed by:

Donald A. Snitker, CPA, Audit Partner

Al Flick, CPA, Staff

Jeremy Lockard, Staff